ESO 964

Dairy Situation and Outlook: 1982 and 1983[1]

Five quick observations tell us much of what we need to know about where we are and where we are going in the milk market.

1. We are not yet out of the woods so far as excess milk production is concerned. Milk production in the U.S. will total 134.3 billion pounds in 1982, up by more than 1 percent from the record 1981 output of 132.6 billion pounds.

2. Aggregate commercial demand for milk is fairly stable at just over 120 billion pounds. It will be about 121 billion pounds in 1982, and will show a further slight increase in 1983 if economic conditions improve. Per capita consumption -- also fairly stable -- will be close to 540 pounds milk equivalent in 1982 (about 520 pounds commercial demand and 20 pounds in donation type programs).

3. At the present time, the difference between the quantity of milk marketed by farmers and the quantity of milk demanded by the commercial market is substantial. In 1981, this difference -- or surplus -- amounted to a record 12.86 billion pounds -- or almost 10 percent of annual milk production. In 1982, the surplus will increase to about 13.5 billion pounds. Net expenditures for dairy price support by the Commodity Credit Corporation will be about $2.3 billion in 1982 -- more than twice the amount that the Administration deems acceptable.

4. Most of the dairy price outlook for 1983, and beyond, will be determined by what happens in dairy legislation this fall. The present

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[1]Robert E. Jacobson, Professor, Agricultural Economics, The Ohio State University, for presentation at the Midwest Outlook Conference, West Lafayette, Indiana, August 16, 1982.

support price of $13.10 per cwt. expires Sept. 30, 1982. The Agriculture and Food Act of 1981 specifies a 15 cent increase to $13.25 for the 1982-83 marketing year beginning this October 1. Unless Congress acts, the 15 cent increase will occur. If Congress does act, the more likely avenues it will pursue are either (a) continuation of the $13.10 price for the 1982-83 marketing year, or (b) a modest (50 cent?) decrease in the support price. In any event, producer prices will shadow closely any changes in the support price.

5. Producer milk prices across the United States averaged a record $13.80 per cwt. in 1981. In 1982, for the first time in several years, the average producer price for milk is decreasing and will be close to $13.55 (minus 2 percent) for the year. At this juncture, assuming little change in the support price, producer prices in 1983 will stay close to 1982 prices.

The essential message in the milk price outlook as of mid-1982 is that little price change is in prospect through 1983. BUT, unless milk production starts turning downward in the next few months, there will be major political pressures directed at reducing the support price.

Milk Production

The key to whether or not changes in the dairy price support program are adopted this fall is milk production.

To help our perspective on milk production, let me back up a few years (to 1975) and then say some things about the present. We have been on a substantial upward trend in milk production since 1975 -- far beyond our capacity to absorb the milk in the commercial market.

Year	U.S. Milk Production
1975	115.4 Bil. Lbs.
1976	120.2
1977	122.7
1978	121.5
1979	123.4
1980	128.5*
1981	132.6*
1982	(134.3)*

*Each of the past 3 years has recorded new records in the level of U.S. milk production.

Now, in 1982, we are seeing some change in the milk production situation. While 1981 production was 3.2 percent larger than 1980, 1982 milk production, although higher, is slowing up. In the first quarter of 1982, production was up by only 1.8 percent from the first quarter of 1981; and the second quarter recorded only a 1.1 percent increase over the second quarter of 1981. Where to from here? Let's consider cow numbers and production per cow and introduce some causal observations about them in terms of beef prices, feed costs, and milk prices.

A. Cow Numbers - One quick way to describe the dairy surplus situation in the U.S. as of August, 1982 is to note that there are 10,985,000 milk cows in our national dairy herd, and that is about 1 million more cows than the milk market requires.

Note the following quarterly data on numbers of milk cows in the U.S. since 1979.

Numbers of Milk Cows, U.S., Quarterly, 1979-1982
(Thousands)

	1979	1980	1981	1982
1st quarter	10,766	10,772	10,877	11,005
2d quarter	10,715	10,786	10,892	10,985
3d quarter	10,727	10,823	10,925	
4th quarter	10,760	10,857	10,981	
Annual	10,743	10,810	10,919	

The build-up in milk cow numbers from mid-1979 to early 1982 is without precedent in the past World War II period. Given "normal" circumstances, we might have expected a 300,000 cow decline since mid-1979; the 300,000 cow buildup instead means a 600,000 cow difference -- and that explains much of our current surplus. Now, in the second quarter of 1982, cow numbers have dropped slightly. The second quarter reduction in cow numbers is encouraging -- it has to be after a 31 consecutive month buildup -- but whether the historic downward trend in cow numbers is yet ready to resume is unclear.

A first factor we usually look to in gauging dairy cow number changes is cull cow or utility grade beef prices. Since averaging a peak of $50.10 per cwt. in 1979, the beef price has been relatively weak.

Utility Cow Prices, Omaha

1979		$50.10 per cwt.
1980		45.73
1981		42.01
1982		
	Jan	$36.64
	Feb	38.11
	Mar	39.41
	Apr	41.26
	May	43.40
	Jun	42.76
	Jul	42.52

Given the observation that beef prices will show considerable stability near current levels in the next several months, there is no basis for expecting much help from the meat market in solving the dairy problem. The beef/milk price ratio has been holding in the 3.2 to 3.3 range recently ($43.40 beef price ÷ $13.30 milk price) and has been below 4 to 1 since February, 1980, and that has favored more milk production. A ratio closer to 4:1 would make

a difference.

Dairy Replacements

Another factor in the outlook for cow numbers is the high population of dairy replacement heifers 500 pounds and over relative to milk cow numbers. The discouraging aspect of this ratio is that it has continued to increase even in the face of pessimistic price prospects. On July 1, 1982, the ratio stood at a record 43.5.

	Milk Cows (000)	Replacement Heifers	Heifers per 100 Milk Cows
July 1, 1978	10,761	3,955	36.8
July 1, 1979	10,700	4,115	38.4
July 1, 1980	10,798	4,377	40.5
July 1, 1981	10,899	4,628	42.5
Jan 1, 1982	10,998	4,530	41.2
July 1, 1982	10,980	4,780	43.5

The mid-1982 ratio of 43.5 indicates an excessive capacity for milk production. The average ratio for the 1965-75 period was only 32.5 heifers. Essentially, the cow number problem in terms of replacements is not correcting itself.

Milk Cow Prices

The average price of milk cows for herd replacement purposes has weakened. Data for recent years show the following movements:

Year	Price of Dairy Cows Sold For Dairy Herd Replacement
1977	$504 per head
1978	675
1979	1,040
1980	1,190
1981	1,200
1982	
April	1,110
July	$1,110

Milk cow prices peaked at $1,240 in January, 1981 and have been backing off ever since. The price drop may be more a matter of large supply than weak demand, but it does reflect some awareness of on-coming price weaknesses in the milk market.

B. Production Per Cow - Milk production per cow has continued to march upward at a steady rate in recent years, but the rate of increase is dropping substantially in 1982. The numbers, as averages for the U.S., appear as follows:

Year	Production Per Cow	Pct. Increase
1977	11,206 Lbs.	
1978	11,243	+0.3 pct.
1979	11,488	+2.2
1980	11,889	+3.4
1981	12,147	+2.3
1982	(12,200)	+0.4

In an aggregate production sense, the slowdown in output per cow is fairly good news. Three of the four largest dairy states -- Wisconsin, New York, and Minnesota -- recorded 2d quarter 1982 production per cow below 1981 levels. The late spring poorer quality high priced hay, and a higher proportion of first lactation cows are identified as causes.

Yet the milk-feed price ratio continues to favor milk production. Recent data on this measure are as follows:

Year	U.S. Milk-feed Price Ratio*
1977	1.39
1978	1.53
1979	1.55
1980	1.48
1981	1.44
1982	
May	1.46
Jun	1.46
Jul	1.46

*Pounds of 16 percent protein dairy ration equal in value to 1 pound of milk.

As I suggested last year at this Conference, with other things being equal, a milk-feed price ratio of 1.25 to 1.3 or higher is favorable to milk production. In spite of the static milk price situation, the current and projected weakness in the grain markets suggests that milk producers will continue to see a favorable milk-feed price ratio. My guess from this is that production per cow will quickly get back on track and in 1983 it will reach 12,500 pounds. That will pump new pressure onto the dairy price support system -- 1983 will be a critical year assuming something substantive isn't done this fall.

It's at least interesting for those attending this Conference to get a perspective on their own state's production per cow level relative to other states. Selected data for 1981 are as follows:

State	1981 Production Per Cow
California (1)	15,432 Lbs.
Michigan (8)	12,985
Wisconsin	12,441
U.S.	12,147
Missouri	11,554
Ohio	11,539
Nebraska	11,382
Minnesota	11,356
Kansas	11,266
Iowa	11,251
Illinois	11,176
South Dakota	11,120
Indiana	11,078
Oklahoma	10,455
North Dakota	10,355
Kentucky	9,426
Mississippi (50)	8,711

All seven of the states that surpass Michigan in production per cow are in the West. The Midwest performance, relatively, is not very distinguished.

Grade A - Grade B

The steady march toward an all Grade A milk supply in the U.S. continued in 1981 and will continue to progress in the next several years. In 1970, only 74 percent of the milk marketed by farmers in this country was Grade A, but it had increased to 85 percent in 1981. Two states, Wisconsin and Minnesota, account for 52 percent of the manufacturing grade (B) milk; but Wisconsin has now moved up to 72 percent Grade A and Minnesota to 61 percent Grade A. Production in 21 states is now all Grade A.

Demand

To get some perspective first on the market, data on utilization of the U.S. milk supply in 1981 as compared to 1970 are shown as follows:

	Utilization of U.S. Milk Supply	
	1970	1981
Fluid products	44.3 pct.	37.8 pct.
Cheese	18.5	28.2
Butter	20.4	18.4
Frozen dairy products	9.4	9.0
Other products	7.4	6.6
Total	100.0 pct.	100.0 pct.

The number one usage of milk-fluid - continues to decline as a share, and the number two user-cheese - is continuing to increase. Much of the percentage decline in fluid in the past 3 years is explained mostly by the increase in milk production. Annual fluid usage has been almost

constant throughout the 1970 to 1981 period in the 50-52 billion pound range.

Commercial demand for milk on a per capita basis has been relatively stable in recent years. A 1975 and 1981 comparison for key dairy products shows as follows:

Product	Per Capita Commercial Demand 1975	1981
Whole milk (3.25% BF)	181 lbs.	139 lbs.
Lowfat-skim	78	98
Cream	5.6	5.8
Butter	4.4	3.9
Hard cheese	14.2	17.4
Cottage cheese	4.7	4.3
Ice cream	4.2 gals.	4.0 gals.
Ice milk	1.7 gals.	1.6 gals.
Commercial demand (m.e.)	511 lbs.	518 lbs.
All sources*	546	540

* - Includes USDA donations

Commercial disappearance of milk in the first quarter of 1982 was up 1.7 percent from the same period in 1981. The percentage increase for all of 1982 will be close to that of the first quarter and will mean a commercial market of 122.2 billion pounds for the year. Relatively favorable retail prices for milk and dairy products through 1983 should continue to mean a reasonable aggregate demand. Increases in CCC donations of surplus dairy products in 1982 and 1983 will move per capita consumption from all sources up slightly.

Within the fluid market, whole milk now (1982) accounts for 57 percent of sales, lowfat milk - 31 percent, skim milk - 4.5 percent, and other fluid items - 7.5 percent. In 1970, whole milk was 79 percent of the fluid market, lowfat - 12 percent, skim - 4 percent, and other - 5 percent. We are rapidly approaching the point of having less than half of our fluid sales

accounted for by whole milk. The average butterfat test of producer milk in the U.S. currently is 3.65 percent, but the average butterfat content of Class I fluid products is 2.55 percent -- and that means there is quite a bit of excess cream for disposition out of fluid milk markets.

Three quick and timely items are worth noting in regard to dairy products.

a. UHT - Ultra-High Temperature - processing of fluid milk took another step forward in the spring of 1982. Dairymen (Louisville) started operating their $14 million Savannah plant 3 months ago, and the product is gaining considerable attention. Thus far it is more of a World's Fair item than a commercial product, but it is something to keep track of in this next couple of years. It is not particularly unique as it has been a major product in some West Europe nations for many years.

b. A bill entitled National Dairy Products Promotion Plan is currently being considered in Congress. This plan calls for a mandatory 5 cents per cwt. assessment on all producer milk for generic promotion purposes. Implementation would require producer approval in a referendum. If passed, it would raise an additional $65 million annually, or just about double the amount of money currently made available for UDIA type programs on a generally voluntary assessment basis.

c. A matter getting increased attention at present is the push to change the FDA Standards of Identity for fluid milk products by raising the solids-not-fat (SNF) minimum levels. The current Federal standards were adopted in 1975 and they are as follows:

	Minimum BF	Minimum SNF
Whole milk	3.25 pct.	8.25 pct.
Lowfat milk	0.5 - 2.0	8.25
Skim milk	<0.5	8.25

The main complaint is that the SNF minimum is too low. The average SNF test of producer milk is 8.6 percent. Proponents are pushing for California type standards -- 8.7 percent for whole milk, 10 percent for lowfat, and 9 percent for skim milk. Higher standards would require fortification of most of the fluid milk sold in the U.S. As a result, more nonfat dry milk would be utilized in the commercial market and not have to be purchased by CCC. Secretary Block has expressed his interest in the program. The issue will come into sharper focus in 1983.

Producer Prices

Since 1977, average producer milk prices across the U.S. have moved as follows:

Year	Price Per Cwt.
1977	$ 9.72/cwt.
1978	10.60
1979	12.00
1980	13.00
1981	13.80
1982	(13.55)

Until this past year, the dairy sub-sector had almost gotten used to significant annual price increases and 80 percent of parity determinations. But we clearly have moved into a different environment in terms of price movements and price expectations.

The monthly Minnesota-Wisconsin manufacturing milk price, which is the key measure of milk prices across the U.S., has behaved as follows since the last time (October 1, 1980) that there was any change in the dairy support price.

Month	M-W Price	Support Price
Oct, 1980	$12.42/cwt.	$12.80 (80 percent parity)
Nov	12.52	
Dec	12.61	
Jan, 1981	12.64	
Feb	12.66	
Mar	12.67	
Apr	12.66	
May	12.61	
Jun	12.59	
Jul	12.53	
Aug	12.47	
Sep	12.46	(Oct 1 to Oct 21 increase to $13.18 or 75% parity)
Oct	12.52	
Nov	12.52	$12.80 (72.8% parity)
Dec	12.56	
Jan, 1982	12.55	
Feb	12.46	
Mar	12.45	
Apr	12.45	
May	12.43	
Jun	12.42	
Jul	12.42	To 9/30/82

Note the following four things with respect to the M-W and support prices:

a. The prices listed are for milk testing 3.5 percent butterfat. In effect, the $12.80 support price for 3.5 milk is identical to the $13.10 support price for milk of the average BF test (3.65%).

b. The M-W price has been virtually constant (25 cent range) since October, 1980; and in July, 1982 it was identical to the October, 1980 price ($12.42).

c. What was 80 percent of parity in October, 1980 at $12.80 was only 72.8 percent in October, 1981 and is only 69 percent today as factors, especially the Parity Index, have changed.

d. Competitive market prices as reflected in the M-W price have lagged underneath the support price by a significant amount since October, 1980 and are currently 38 cents below. In effect, the market price cannot catch up with the support price, probably because CCC purchase prices for butter, cheese, and nonfat dry milk are not high enough to justify a $12.80 pay price by plants.

This background on producer prices is pertinent because the level of producer milk prices in the 1983-85 period will depend in large part on the price support level and the type of price support program to be specified. Here are some particulars.

1. The Agriculture and Food Act of 1981 specified milk support prices through September 30, 1985. They are as follows:

Marketing Year	Support Price
1981 - 82	$13.10 per cwt.
1982 - 83	13.25
1983 - 84	14.00
1984 - 85	14.60

Note that these are dollar and cent support levels -- they do not reflect parity calculations. We currently are on the $13.10 support price. Unless Congress takes action, the $13.25 support price will be implemented this coming October 1.

2. Most parties have accepted the fact that there is too much surplus milk, that dairy price supports are too costly, and that the dairy title of the 1981 Farm Act will have to be modified.

There are only three relevant options. One, Secretary Block has asked for "discretionary authority" to lower the milk support price level. He has suggested going from $13.10 down to $12.00 on January 1,

1983. His request is identified as the Hawkins Bill in the Senate. Most observers don't believe that the Secretary will be given this authority.

The second option is the Dairy Stabilization Program, strongly supported by the National Milk Producers Federation. It is a two tiered pricing plan in which producers would get a lower price for their proportionate share of the national surplus. The CCC would bear the cost of 5.0 billion pounds m.e. of program purchases, and producers would bear the costs of price support for all purchases in excess of 5 billion pounds. The support price would be $13.10 the first year, and parity equivalents of $13.10 in subsequent years. The lower, or excess price, would be determined by what is left after purchase costs (beyond 5 billion pounds) and disposition revenues. Estimates of what a producer would receive for his share of the excess range from zero to a world price of $6.50 per cwt. A market reduction incentive in which producers cutting back production would receive refunds on the amount reduced is also included in the proposal.

The primary argument supporting the proposal is that it would shift a lot of the cost of supporting milk prices from the government to the producer. The primary argument against it is that, while not a base plan, it has some dimensions of a base plan to it, and the Administration would rather simply go with price adjustments and avoid a complex government program.

The third option is a modification of the first one. As of mid-August, 1982, the U.S. Senate has approved a budget reconciliation package

that freezes the milk support price at $13.10 through September, 1985. This is not too far away from what Secretary Block requested. The likelihood is that the NMPF proposal will not be adopted, and the total adjustment will be pursued through price.

If that is the case, then --

a. Producer milk prices, at least through 1983, will be close to 1982 levels.

b. Surplus milk and the cost of surplus milk will continue to be with us for a while, meaning that the dairy price support program will be subject to continuing broadsides.

CCC Purchases and Costs

For the recent four calendar years, 1979 through 1982, the Commodity Credit Corporation purchases of dairy products to support producer milk prices have been as follows:

Annual CCC Purchases of Dairy Products, 1979-1982

Year	Butter	Cheese	NFDM	Milk Equivalent
1979	81.6 Mil. Lbs.	40.2 Mil. Lbs.	255.3 Mil. Lbs.	2.1 Bil. Lbs. (1.8 pct.)
1980	257.0	349.7	634.3	8.8 (6.9 pct.)
1981	351.5	563.0	851.3	12.8 (9.7 pct.)
1982*	375.0	600.0	1,010.0	13.6 (10.1 pct.)

*Estimates

The 1981 and 1982 purchases by CCC are excessive by almost any measure. For 1982, CCC is purchasing about 30 percent of U.S. butter production, 14 percent of hard cheese production, and 75 percent of nonfat dry milk production. Government purchases will be equivalent to 10.1 percent of U.S. milk production.

Quantity is one problem -- cost is the other. To implement the $13.10

support price, CCC purchase prices since October 1, 1980 have been $1.49 per pound for butter (Chicago); $1.395 per pound for cheddar cheese (40 pound blocks); and 94 cents a pound for nonfat dry milk (extra grade). Program costs have continued to mount. For recent marketing years, net expenditures for dairy price support have been as follows:

Fiscal/Marketing Year	Net Government Expenditures For Dairy Price Support
1978 - 79	$ 244.3 Million
1979 - 80	1,274.0
1980 - 81	1,976.2
1981 - 82	($2,100.0)
1982 - 83	($2 Billion ±)

The $2 billion annual costs for dairy price supports we are now facing for a third consecutive year are the primary factor motivating some kind of a change in the dairy program. Milk producers recognize that unless the costs can be reduced by 50 percent or more in the near future, the entire dairy price support program becomes vulnerable to major change.

Dairy Product Stocks

Cold storage holdings of dairy products are at record levels and continue to put downward price pressures on wholesale dairy commodities. As of July 1, 1982, butter stocks totaled 540.3 million pounds, up 6 percent from a year ago. About 95 percent (515 million pounds) of the butter stocks were in government storage, only 5 percent commercially held. Stocks of natural American cheese were 717.4 million pounds, up 22 percent from a year ago, and 48 percent of the cheese was held by the government. Also as of August 1, 1982, the CCC held uncommitted inventories of nonfat dry milk of 1,133,525,000 pounds, up by 34 percent from a year ago. That is equivalent to almost a year's production of powder.

With much of the dairy inventory being held by government, the disposition of dairy stocks is gaining increasing attention in the USDA. In his May 5, 1982 dairy policy statement, Secretary Block gave major attention to domestic and international distribution ideas and identified 13 different methods that were to be emphasized. However, his support for commercial (subsidized) exports was qualified and predicated on his getting authority to significantly lower the support price.

Imports - Exports

Section 22 import quotas continue to mean that not much outside product is going to impact the U.S. dairy market. The 2.3 billion pounds of product (milk equivalent) that came to the U.S. in 1981 was only 1.8 percent of U.S. milk production, and 1982 imports are about the same.

Only casein, as a non-quota product, continues to bother the milk producer sector. That is because of its usage in processing imitation cheese. However, casein imports dropped from 151 million pounds in 1980 to 128 million pounds in 1981, and they are down even further thus far in 1982. A final resolution of casein import matters has not as yet been achieved however, and Secretary Block will receive recommendations from another study analyzing subsidized casein imports by January 1, 1983.

Exports of dairy products from the U.S. were up in 1981 and again in 1982 from their traditionally limited levels. Much of the increase is explained by the New Zealand butter sale (100,000 metric tons), shipments of which have been occurring in 1981 and 1982. The 3.1 billion pounds milk equivalent exported in 1981 is the largest volume in many years. Producer groups continue to push for greater export of dairy

product, including subsidized exports. However, in terms of total foreign trade policy and the favorable balance for agriculture, the Administration is unlikely to endorse subsidized dairy exports. However, Secretary Block has called for more use of PL-480 (Title II donations), re-implementation of Section 416 donations, and hopefully expansion of commercial exports.

Imports and Exports of Dairy Products, Milk Equivalent 1979-1981

Year	Imports	Pct. of Production	Exports	Pct. of Production
1979	2,303 Mil. Lbs.	1.9 pct.	362 Mil. Lbs.	0.3 pct.
1980	2,107	1.6	370	0.3
1981	2,325	1.8	3,096	2.3

Producer Prices - Income

Blend prices for ten major Federal order markets across the Midwest for the month of June, 1982 provide a useful comparison with 1981.

Market	Blend Price Per Cwt. (3.5 BF) June, 1981	June ,1982
Southern Michigan	$13.31	$13.09
E. Ohio - W. Penn.	13.21	13.00
Ohio Valley	13.33	13.10
Indiana	13.34	13.05
Chicago Regional	13.06	12.87
Louisville - Lex - Evan	13.16	12.85
Upper Midwest (Minneapolis)	12.81	12.64
Iowa	13.12	12.92
Kansas City	13.28	13.11
St. Louis	$13.38	$13.12

As the data indicate, June, 1982 prices were 15 to 30 cents below year ago prices, and this has been (and will be) a consistent monthly pattern throughout 1982.

For 1982, the impact on producer income of a 1.3 percent increase

in production and a 1.7 percent decrease in price will mean a very slight drop from the 1981 record $18.1 billion cash receipts from the sale of milk and cream. Dairy income in 1983 should remain close to the 1981 and 1982 levels.

Static prices have not as yet been much of a factor in creating economic stress in the milk industry. The continuing favorable milk-feed price ratio has been one factor. Also, the Index of Prices Paid By Farmers increased from 1,035 in July, 1981 to 1,082 in July, 1982 (1910-1914 = 100). That increase of 47 points is only a 4.5 percent inflation in farm costs over the 12 month period.

Retail Milk and Dairy Product Prices

In June, 1982, average retail prices for milk and dairy products across the U.S. were as follows:

Whole milk, 1/2 gal.	$1.122
Lowfat milk, 1/2 gal.	1.056
Butter, lb.	2.052
Ice cream, 1/2 gal.	2.060

These retail prices are almost the same as a year ago, and that pattern is reflected in the components of the Consumer Price Index.

	May, 1982	Change from May, 1981
Consumer price index (1967 = 100)	287.1	+6.7 pct.
Food*	285.5	+4.8
Cereal-Bakery	283.3	+4.9
Meat, poultry, fish	261.0	+5.7
Fruits and vegetables	297.9	+7.6
Dairy products	247.0	+1.3
*Food at home	279.8	+4.5
Away from home	304.8	+5.4

The relationships in the CPI for milk relative to food and to the total CPI have been consistent for a long period of time. With producer

milk prices remaining in their static position through 1983, the relative price position of milk and dairy products will reflect an even wider gap in the CPI.

Conclusion

Surplus milk still describes the dairy industry in mid-1982, and it will be tough working our way out of the situation. Feed grain prices/costs and beef prices are helping keep more resources in milk production than the market needs. Milk prices and milk price expectations have diminished in 1982, but supply lags are still meaning a record milk production.

The dairy program that the Congress-Administration finally agree upon in these next few weeks will be a major determinant of the price level producers can expect, at least for the 1982-83 marketing year. While anything is possible legislatively, the likelihood is that a compromise situation of holding the support price at $13.10 for 1982-83 will prevail. The two-tiered pricing plan promoted by NMPF, with considerable support in the House of Representatives, is a relatively distant second possibility. In either case, producer milk prices in 1983 should remain close to 1982 levels.